

## Message Text

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ACTION EUR-12

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TO SECSTATE WASHDC 1347  
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USMISSION USNATO  
AMCONSUL LENINGRAD

C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 09826

USDOC FOR BEWT/TDAD (STECHSCHULTE)

E.O. 11652: GDS  
TAGS: EEWT, EIND, ELTN, UR  
SUBJECT: HEAD OF GENERAL MOTORS (EUROPE) DISCUSSES NEW  
MOSKVICH PROPOSAL

SUMMARY: GENERAL MANAGER OF GM (EUROPE) CALLED ON AMBAS-  
SADOR APRIL 27 AND OUTLINED GM PROPOSAL TO PRODUCE NEW  
MOSKVICH AUTOMOBILE IN USSR UNDER JOINT PROGRAM WITH  
SOVIETS. MAGNITUDE OF DEAL WOULD BE APPROXIMATELY \$1.5  
BILLION. IT WOULD INVOLVE SOVIET COMPENSATION PAYMENTS  
TO GM BOTH IN AUTOMOBILES AND ENGINES. PRODUCTION IS  
ENVISIONED TO GO ON STREAM IN 1983. GM WILL NOT BE PRE-  
PARED TO GO FURTHER IN DISCUSSIONS, HOWEVER, UNLESS  
SOVIETS AGREE AT OUTSET TO 21 KEY "GUIDELINES", AMONG  
WHICH ARE NEED TO ACCEPT GM DESIGN CHANGES PERIODICALLY,  
TO CONSENT TO GM QUALITY CONTROL PERSONNEL BEING ASSIGNED  
IN PLANT AND, IN GENERAL, TO ALLOW GM STRONG HAND IN  
ALL PHASES OF PRODUCTION. SOVIET DELEGATION WILL VISIT  
WEST GERMANY, MAY 10-11, AT INVITATION OF GM TO INSPECT  
OPEL ASCONA. END SUMMARY.

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1. MESSRS. GUY NEWTON AND DAVID HERMAN, GENERAL MANAGER  
(EUROPE) AND LEGAL ADVISOR, GENERAL MOTORS OVERSEAS  
CORPORATION, RESPECTIVELY, CALLED ON AMBASSADOR APRIL 27  
TO REPORT ON GM'S DISCUSSIONS WITH SOVIETS CONCERNING  
LATTERS' PLANS TO UP-DATE MOSKVICH AUTO PLANT NEAR MOSCOW  
AND COME OUT WITH NEW, PERHAPS JOINTLY-PRODUCED, AUTOMO-  
BILE. NEWTON EXPLAINED THAT HIS VISIT WAS A FOLLOW-UP

TO DEPMIN FOREIGN TRADE SUSHKOV'S VISIT TO GM HEADQUARTERS IN DETROIT IN MARCH. ON MECHANICS OF SUSHKOV'S VISIT, NEWTON COMPLAINED THAT SOVIETS, USING US/USSR TRADE AND ECONOMIC COUNCIL AS THEIR PRIMARY CHANNEL, HAD GONE STRAIGHT TO GM PRESIDENT MURPHY WITH INITIAL REQUEST TO BE RECEIVED IN DETROIT. WHEN WEEKS PASSED WITHOUT RESPONSE FROM GM, US/USSR T AND EC'S PRESIDENT HAROLD SCOTT HAD CALLED NEWTON IN LONDON WITH URGENT APPEAL FOR HELP. NEWTON SUBSEQUENTLY ARRANGED ENTIRE SOVIET ITINERARY IN U.S., AND EXPRESSED HOPE THAT IN FUTURE SOVIETS WOULD GO THROUGH HIS OFFICE FOR ARRANGEMENTS OF A SIMILAR KIND.

2. GM RESPONSE TO SOVIET PROPOSAL: NEWTON TOLD AMBASSADOR THAT HE HAD COME TO MOSCOW WITH "GUIDELINES" FOR AN AUTO PRODUCTION AGREEMENT WHICH CONTAINED 21 KEY POINTS. WITHOUT ENUMERATING POINTS, NEWTON OUTLINED BRIEFLY GM'S POSITION. RECALLING GREAT TROUBLE AND EXPENSE FIRM HAD GONE TO IN BIDDING ON AND PREPARING FEASIBILITY STUDY FOR A LARGE TRUCK PLANT IN POLAND, ONLY TO HAVE DEAL FALL THROUGH AFTER TWO YEARS OF NEGOTIATIONS AND \$5 MILLION IN EXPENSES, NEWTON SAID THAT UNLESS SOVIETS WOULD AGREE TO ALL 21 "GUIDELINE" POINTS AT OUTSET THERE WOULD BE NO FURTHER DISCUSSIONS. AMONG CRITICAL ISSUES, IN GM'S VIEW, WERE NEED FOR SOVIETS TO UNDERSTAND THAT GM WOULD ONLY ON  
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PRODUCTION OF A NEW MOSKVICH CAR IF SOVIETS WERE PREPARED TO SUBMIT TO SAME CONTINUOUS AND RIGOROUS SCHEDULE OF MODEL CHANGES AND PERIODIC TECHNICAL IMPROVEMENTS WHICH FIRM IMPOSES ON ALL OF ITS LICENSEES. "WE WILL NEVER BUY BACK OR BE PARTY TO THE PRODUCTION OF A MACHINE THAT IS PROGRESSIVELY AGING," HE STATED. NEWTON EXPLAINED THAT MODEL OF CAR GM WAS PROPOSING TO SOVIETS WOULD BE 1982 RPT 1982 VERSION OF OPEL ASCONA, WHICH WILL BE EQUIVALENT IN SIZE TO PRESENT-DAY MOSKVICH ALTHOUGH WITH MORE LEG AND HEAD ROOM INSIDE. BEFORE PRODUCTION BEGAN IN 1983 (ONE YEAR AFTER CAR HAD BEEN ON MARKET IN WEST), GM WOULD ASSIST SOVIETS IN REVAMPING CURRENT MOSKVICH PLANT WHICH NEWTON SAID IS ONLY FIVE YEARS OLD AND "VERY GOOD." GM WOULD ALSO ASSIST IN MECHANICAL INSTALLATION OF NEW ENGINE PLANT OF WHICH HUGE U.S. AUTOMAKER WOULD PLAN ON TAKING ONE-HALF OF OUTPUT IN COMPENSATION. WHEN FINALLY ASSEMBLED, NEW MOSKVICH WOULD CONTAIN -- UNDER GM PROPOSAL -- ABOUT 25 PERCENT GM COMPONENTS SUPPLIED ALMOST ENTIRELY FROM WESTERN EUROPE.

3. REASON FOR GM INTEREST: IN RESPONSE TO AMBASSADOR'S QUESTION AS TO WHY GM IS INTERESTED IN SUCH A JOINT PRO-

JECT WITH SOVIETS, NEWTON SAID THAT IT WOULD SAVE FIRM ABOUT \$1.5 BILLION RPT \$1.5 BILLION IN INVESTMENT CAPITAL FUNDS THAT WOULD OTHERWISE HAVE TO BE EXPENDED ON ANOTHER PRODUCTION FACILITY IN WESTERN EUROPE. IN RETURN, SOVIET AUTO INDUSTRY WOULD RECEIVE A CONTINUOUS FLOW OF GM TECHNOLOGY RELATING TO OPEL ASCONA DESIGN AND ENGINEERING. (IN BRIEF EXCHANGE WITH NEWTON AFTER AMBASSADOR'S MEETING, COMATT INQUIRED WHETHER GM WOULD EXPECT TO STATION ITS QUALITY CONTROL PERSONNEL ON MOSKOVICH PRODUCTION LINE AND NEWTON ONDED "DEFINITELY YES.") NEWTON PLACED PRELIMINARY PRICE TAG ON PROPOSED NEW VENTURE AT BETWEEN \$1 BILLION AND \$1.5 BILLION, WITH ODDS

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THAT FINAL COST WOULD BE CLOSER TO LATTER FIGURE.

4. WHAT REMAINS TO BE DONE? : IN RESPONSE TO AMBASSADOR'S QUESTION, NEWTON SAID THAT HE HAD ONE MORE DAY OF MEETINGS WITH DEPMIN SUSHKOV BEFORE RETURNING TO LONDON. GM HAD ALREADY INVITED A HIGH-LEVEL SOVIET AUTOMOTIVE DELEGATION (PRESUMABLY INCLUDING SUSHKOV) TO COME TO WEST GERMANY ON MAY 10-11 TO TOUR OPEL PRODUCTION FACILITIES AND INSPECT OPEL ASCMRA. FOLLOWING THAT VISIT NEWTON UNDERSTOOD THAT SUSHKOV WOULD BE DUE TO MAKE A REPORT ON HIS FINDINGS TO SOVIET GOVERNMENT. AMBASSADOR WONDERED WHY SUSHKOV HAD BEEN CHARGED WITH RESPONSIBILITY FOR THIS PROJECT, AND NEWTON FELT THAT THREE REASONS AC-

COUNTED FOR IT: (1) SUSHKOV IS NOW CO-CHAIRMAN OF US/USSR T AND EC; (2) HE IS BROADLY RESPONSIBLE FOR COMPENSATION DEALS WITH WESTERN FIRMS, AND (3) HE HAS HAD A LONG-TERM ACQUAINTANCESHIP WITH GM SPECIFICALLY. NEWTON SAID HE WOULD BE VISITING WASHINGTON IN MID-MAY TO DISCUSS FEASIBILITY OF THIS MAJOR PROJECT WITH INTERESTED USG AGENCIES. HE NOTED THAT GM HAD HAD PROBLEMS WITH U.S. CONFIDENTIAL

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EXPORT CONTROL REGULATIONS ON ABORTED POLISH DEAL; AND THEREFORE EXPECTED QUESTIONS ON THIS PROJECT AS WELL. IN CONCLUSION, NEWTON SAID HE REALLY DID NOT RATE CHANCES OF GM'S SUCCESS ON THIS PROJECT AS VERY HIGH, BUT NOTED THAT IT WOULD BE DRAMATIC IF IT CAME OFF, SINCE SOVIETS WOULD LITERALLY BE COMMITTING THEMSELVES TO TAKING GM'S DIRECTIONS IN PRODUCING THEIR NEW CAR.

5. STATE OF THE ART IN SOVIET AUTO INDUSTRY: ASKED FOR HIS OPINION ON THIS SUBJECT, NEWTON USED TWO EXAMPLES: (1) FIAT PLANT AT TOGLIATTI, AND (2) KAMA RIVER TRUCK PLANT. AS REGARDED DORMER, NEWTON SAID GM CONSIDERED IT TO BE A "VERY GOOD" PLANT INCORPORATING CURRENT EUROPEAN TECHNOLOGY ON PRODUCTION LINE. IT WAS, HOWEVER, OVER-INVESTED AND "TOO EXPENSIVE." SOVIETS WOULD BE PRODUCING UP TO 700,000 ZHIGULIS AND LADAS (DOMESTIC AND EXPORT MODELS, RESPECTIVELY) IN 1978 AND HAD EXPORTED 88,000 LADAS TO WESTERN EUROPE LAST YEAR. IN NEWTON'S VIEW, LADA WAS A BETTER CAR MECHANICALLY THAN ITALIAN-MADE FIAT; YET IT SOLD IN WEST FOR BETWEEN 75 PERCENT AND 80 PERCENT OF PRICE OF EQUIVALENT CAR. NEWTON DESCRIBED KAMA RIVER PLANT AS A "WIDE-SCREEN EXTRAVAGANZA." WITH 25 MILLION SQUARE FEET OF FLOOR SPACE, KAMAZ DWARFED GM'S LARGEST PRODUCTION FACILITY (BUICK) WHICH HAD ONLY 6.5 MILLION SQUARE FEET. THERE WERE 100,000 PEOPLE EMPLOYED AT KAMAZ (30,000 AT GM'S LARGEST); KAMAZ DIESEL ENGINE PRODUCTION WAS SLATED FOR 200,000 UNITS PER YEAR (GM'S BIGGEST FACTORY NOW PUTS OUT 100,000 DIESELS ANNUALLY), AND SO ON. NEWTON RATED FINAL PRODUCT AT KAMAZ AS A GOOD TRUCK, SOLID AND RELIABLE. ALL IN ALL, SOVIETS WERE NOT DOING TOO BADLY BUT THEY WERE NOT EFFICIENT AND RESISTED CHANGE, NEWTON CONCLUDED.

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6. EMBASSY ASSISTANCE: AMBASSADOR OFFERED TO BE OF ASSISTANCE IF THERE WERE ANY WAY IN WHICH GM THOUGHT WE

COULD BE HELPFUL. NEWTON THOUGHT THERE WAS NOTHING EMBAS-  
SY COULD USEFULLY DO AT THIS TIME, BUT AGREED TO KEEP  
AMBASSADOR INFORMED PERIODICALLY ABOUT PACE OF DISCUS-  
SIONS CONCERNING NEW MOSKVICH PROJECT. TOON

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## Message Attributes

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